

Why We Need Optimal Economic Policy and Economic Innovation Models

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ABSTRACT

This article focuses on analyzing **Why We Need Optimal Economic Policy and Economic Innovation Models** in recent years. Method: include Qualitative research method: synthesis and inductive methods. The collaborative economy creates new marketplaces and is “shaking the very bedrock of an industrial system sustained on commercial value chains” (Dredge & Gylmothy, 2017). We also expand SWOT model by adding Value part analysis on it. Results: Authors stated threats **including but not limit to**: ADB reduced GDP growth of big economies (forecast): EU, US, China Japan, etc., monetary and financial markets still has risks (exist), low credit growth; possibility of recession in the short term; high inflation continues to persist in many countries; strategic and geopolitical competition between major countries.

Keywords: SWOT; Factors; R&D; Economic innovation; Technological change; Production function; Model; Growth; Macroeconomic system.

1. Introduction

First of all, Keynesian economics is a system of macroeconomic theory based on John Maynard Keynes's (1883-1946) work *The General Theory of Employment, Interest and Money* (often referred to as *The General Theory*) and the principle of effective demand. The principle of effective demand asserts that the supply of goods is determined by demand. Therefore, during economic recessions, if the demand for public goods investment increases (increases public spending), production and employment will increase, thereby helping the economy to get out of the recession. The Great Depression (1929-1933) deeply influenced Keynes's thinking on economics. Previously, economists believed that every time there was an economic crisis, prices and wages would decrease; manufacturers would have the motivation to increase hiring and expand production, thereby the economy would recover. But Keynes looked at the Great Depression and saw that wages did not fall, employment did not rise, and production never recovered. From there, Keynes argued that markets were not as perfect as classical economists thought (source: wikipedia).

During the industrialization process, President Ho Chi Minh believed that "industry and agriculture are like two legs of the national economy. Indeed, for a country that started from a backward agricultural background, industry and agriculture are two basic material production sectors of society, closely related to each other, even though today we talk a lot about service development - a field of intangible material production (source: tulieuvankien.dangcngsan.vn).

1.1. Study Objective

In order to have a reference for application of Cobb Douglas model for developing nations such as case of Vietnam, hence authors choose this topic of **Why We Need Optimal Economic Policy and Economic Innovation Models**. And our paper is organized with introduction, previous studies, main findings, discussion and conclusion.

2. Previous Studies

Keynesian economics, as part of the neoclassical synthesis, served as the standard macroeconomic model in the developed nations during the later part of the Great Depression, World War II, and the post-war economic expansion (1945–1973). It was developed in part to attempt to explain the Great Depression and to help economists understand future crises. It lost some influence following the oil shock and resulting stagflation of the 1970s. Keynesian economics was later redeveloped as New Keynesian economics, becoming part of the contemporary new neoclassical synthesis, that forms current-day mainstream macroeconomics. The advent of the financial crisis of 2007–2008 sparked renewed interest in Keynesian policies by governments around the world (source: wiki.org).

We summarize in below table:

Authors	Year	Content, results
Eisenstein	2011	With adolescence comes the cessation of physical growth and the system's energy and resources develop other more refined aspects of the individual.
Hsu et al.	2014	However, the development of credit markets appears to discourage innovation in industries with these characteristics.
Raworth	2017	Kate Raworth, an economist at Oxford University also critiques the economic growth model and suggests that pursuing profit is worthless if it is at the cost of humanity. She suggests a different economic model, called doughnut economics, which balances social equity and progress within the environmental constraints of growth, requiring new values, new priorities and new metrics.
Afonso et al.	2019	Show that, for the all period under analysis and controlling for institutional variables, inflation has a significant impact on monetary policy, and that governments raise their primary balances when facing increases in government debt. We also find a substitution relationship between both policies, whereby the central bank assumes an active role, especially in cases of higher levels of debt. Furthermore, the introduction of a common currency shared by 19 out of 28 EU countries had a structural impact on the response and the interaction between the two policies.
Shledom	2021	Some assumptions underlying the neoliberal economic model that need re-examining are the ideas that: self-interest drives ideal economic behavior; success comes from competition, not cooperation; encouraging consumption for its own sake; giving owners priority over other stakeholders; and more income translates into more happiness. Redesign of economic systems requires consideration of social capital, natural capital, intellectual capital, compassion capital, trust capital and spiritual capital to

		name a few. Examples of alternate systems using these capitals are the collaborative economy, the circular economy, the creative economy, the gift economy, the sacred economy and the regenerative economy.
Dieye	2020	From a practical point of view, macroeconomic policies are usually classified into two broad categories: (i) structural policies that cover a wide range of measures designed to tackle obstacles to the fundamental drivers of growth, and to boost the economy's competitiveness and growth potential in the medium and long run. The structural measures usually have medium and long-term effects; (ii) demand management policies—fiscal and monetary measures—that target short-term macroeconomic stability. Macroeconomic stability refers to a state of the economy that displays internal and external sustainable financial positions, which in turn increase positive prospects for saving, foreign capital inflows, investment, and sustained economic growth.
Benhima et al.	2020	The nature of the private sector's information changes the optimal conduct of monetary policy. When firms observe their individual demand and use it as a signal of real shocks, the optimal policy consists in maximising the information content of that signal. When real shocks are deflationary (like labour supply shocks), the optimal policy is countercyclical and magnifies price movements, which contrasts with the exogenous information case, where optimal monetary policy is procyclical and stabilises prices. When the central bank communicates its information to the public, this policy is still optimal if firms pay limited attention to central bank announcements.

(Source: Author Synthesis).

3. Methodology

3.1. Methodology

- **Qualitative research method:** We also uses comparison and synthesis method, combined with analytical and inductive methods, whereas we take advantage of historical (combined with) dialectical materialism method for our qualitative analysis.

- **Quantitative research methods:** Authors use scientific results as reference.

4. Main findings

4.1. Background

Challenges for Vietnam's economy in 2024. Firstly, the GDP growth rate in the first quarter of 2024, although improved, has not yet returned to the necessary trajectory, is not enough to create breakthroughs for sustainable development and cannot help our country escape the risk of falling into the middle-income trap. The growth poles

have not really played their role in connecting and promoting regions, and at the same time, have also been affected by the general decline of the domestic and world economies. Domestic aggregate demand is weak, slow to recover in the context of inflationary pressure showing signs of increasing; consumer demand increased by 5.3% lower than expected, private investment demand increased by 4.2%; high airfares negatively impacted domestic tourism growth; The service trade deficit has not improved. Secondly, the production and business activities of enterprises still face many difficulties, the number of enterprises withdrawing from the market (86.4 thousand enterprises) is higher than the number of enterprises entering and re-entering the market (81.3 thousand enterprises). Low domestic and international demand, abnormal exchange rate fluctuations, etc., are the main factors affecting the production and business activities of enterprises. Thirdly, the financial and monetary markets still have potential risks and challenges, the bad debt ratio tends to increase. Low credit growth in the context of reduced interest rates shows that the capital absorption capacity of enterprises is still limited. Fourthly, the implementation of the project to restructure the system of credit institutions associated with bad debt handling in the period of 2021-2025 and the plan to handle weak credit institutions, projects and works behind schedule, ineffective investment, and prolonged losses is still slow (source: baomoi.com).

But the question is: Why we need optimal economic policy? Here are some reasons: - importance of poverty reduction, - having certain individual-level socio-economic development, - contribution (financial inclusion) of microfinance, - improving living standards, - social development measures.

True development is triggered by the people's accessibility to sustainable livelihood (Mok, 2000), and the individual level socio-economic development, which will ensure the accomplishment of other development goals (Montgomery & Weiss, 2011). Therefore, poverty reduction, by attaining sustainable livelihood, is a pivotal socio-economic policy and also a challenging target for developing countries (Mazumder & Lu, 2015). Poverty is a multidimensional phenomenon (Liu, 2021, and Žiković, 2020) in its implications and effects, which influences the socio-economic status of impoverished people, that too in multiple dimensions (Mirza et al., 2020).

4.2. Innovation models



Figure 1. Circular economy (Source: avivainvestors.com)

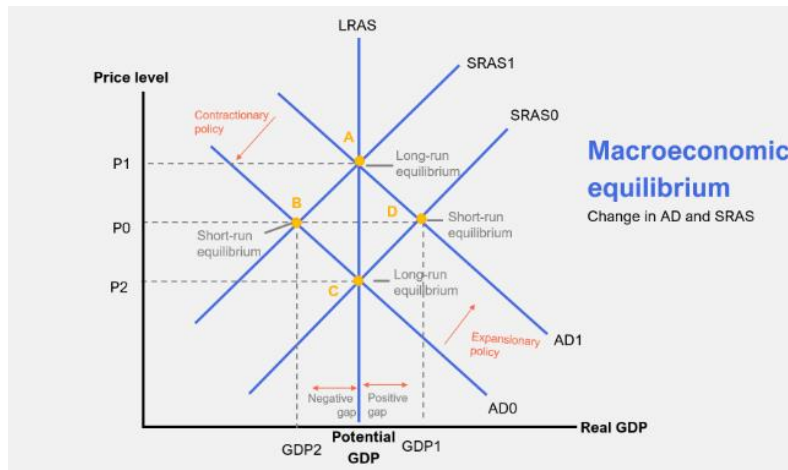


Figure 2. Macro equilibrium model (Source: researchgate.net)

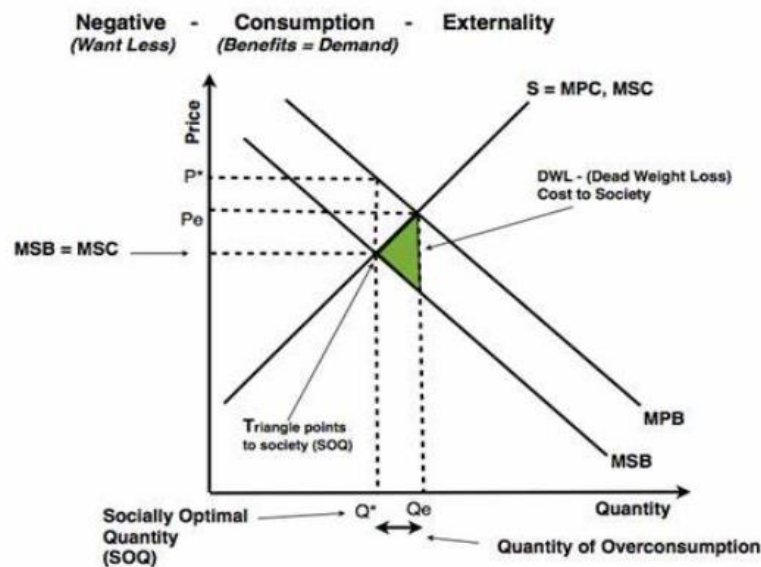


Figure 3. OPTIMAL model (Source: researchgate.net)

Moreover we analyze:

4.3. SWOT Analysis

Table 1. SWOT analysis and Values

Values	- levels of R&D will influence benefits/values of global commerce among countries.
Strengths - the deep level of R&D will affect commercial activities (and of enterprises).	Weaknesses - restructuring credit institutions and bad debt (still need time). - somehow new technological change does not bring any success.
Opportunities - technological innovation will bring or improve productivity, especially in long term econ growth/	Threats - ADB reduced GDP growth of big economies (forecast) : EU, US, China Japan, etc.

development.	<ul style="list-style-type: none"> - monetary and financial markets still has risks (exist), low credit growth. - possibility of recession in the short term; high inflation continues to persist in many countries; strategic and geopolitical competition between major countries, the Russia-Ukraine conflict and policy adjustments by major countries pose risks to financial and monetary market stability, energy security, food security and regional and global geopolitical issues; natural disasters, epidemics, climate change.
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(Source: Author Analysis).

5. Conclusion

Keynesian economics (/ˈkeɪnzjən/ *KAYN-zee-an*; sometimes **Keynesianism**, named after British economist John Maynard Keynes) are the macroeconomic theories and models of how aggregate demand (total spending in the economy) strongly influences economic output and inflation. In the Keynesian view, aggregate demand does not necessarily equal the productive capacity of the economy. It is influenced by a host of factors that sometimes behave erratically and impact production, employment, and inflation. Keynesian economists generally argue that aggregate demand is volatile and unstable and that, consequently, a market economy often experiences inefficient macroeconomic outcomes, including recessions when demand is too low and inflation when demand is too high. Further, they argue that these economic fluctuations can be mitigated by economic policy responses coordinated between government and central bank. In particular, fiscal policy actions taken by the government and monetary policy actions taken by the central bank, can help stabilize economic output, inflation, and unemployment over the business cycle. Keynesian economists generally advocate a regulated market economy – predominantly private sector, but with an active role for government intervention during recessions and depressions (source: wiki.org).

Furthermore, David Ricardo (1819), and later Robert Solow (1956) and many others conceptualize an economy as a machine that produces economic output as a function of inputs such as labor, land, and equipment. Output can increase either when we add more inputs or use technology or innovation in order to enhance the efficiency with which we transform inputs into output.

6. Future Recommendations

First, we can take advantage of Cobb Douglas model in order to predict or forecast GDP or economic growth in case of developing and developed countries.

Second, Cobb Douglas model can be functioned well in commerce sector and others also (Nga, LTV et al, 2021; Adegbile et al, 2021; Afolso, 2019; Duong Thi Ngu et al, 2021; Chu, 2021; Corsetti et al, 2013; Dat, Pham Minh et al, 2020; DTNh, 2015; Duong THi Tinh et al, 2021; Do Thu Huong et al, 2021; Kamada et al, 2007; Kim, 2020; George et al, 2012; Thang et al, 2016; Haq et al, 2020; Vera, 2016).

Third, Cobb douglas model should be able to answer the question why it can be combined with optimal economic policies

And Fourth, How can we apply Cobb douglas function in various cases of macro and micro contexts such as teamwork production, firm performance, factory production, industrial operation, etc.

Declarations

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Competing Interests Statement

The authors declare no competing financial, professional, or personal interests.

Consent for publication

The authors declare that they consented to the publication of this study.

Authors' contributions

All the authors took part in literature review, analysis and manuscript writing equally.

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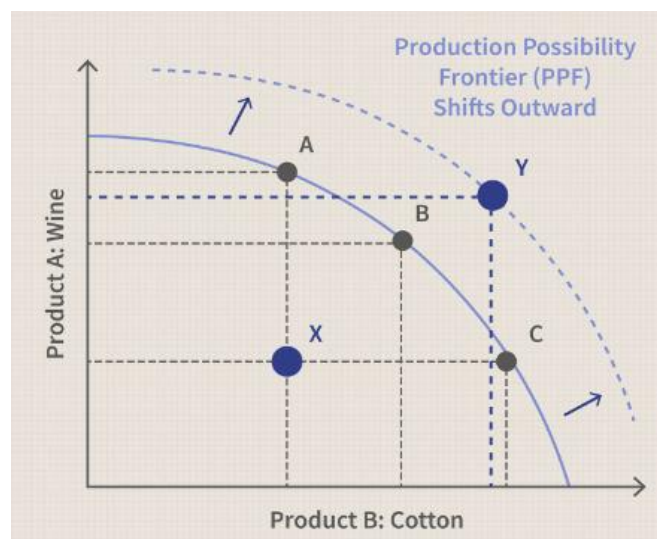
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Appendix 1. Social welfare (optimal)



(Source: remakscotland.com)

Appendix 2. Production (optimal)



(Source: investopedia)